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NFAC CONTRIBUTION TO DCI ANNUAL REPORT

I. 1978 in Intelligence

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B. New or Altered Emphases in Analysis

1978 was not a year dominated by foreign crises requiring extraordinary intelligence efforts, but significant new trends caused us to sharpen our attention or shift the emphasis of our analysis in several substantive areas. These areas ranged from traditional intelligence concerns, such as the strategic balance and China, to newer global preoccupations, such as the changing oil picture and the state of the world economy. Every year has its share of regional troublespots--some old, some new. In 1978 changes in the African and Middle Eastern situations led to shifts in analytic emphasis, while recently quiet areas such as Indochina, Afghanistan, and Iran became subjects of renewed attention.

The Strategic Balance and Perceptions About It

Increased attention, as well as some alteration in analytical and presentational methods, has been prompted in part by developments in the USSR and in part by US policymakers' needs. Rough strategic equality and continued Soviet force modernization have confronted the Administration with more sophisticated and more complex issues revolving around the relationship between Soviet and US/NATO strategic capabilities.

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The Congress is no longer satisfied with intelligence contributions that treat Soviet developments in a vacuum. Ongoing Soviet R&D programs in both strategic offensive and defensive systems have focused additional attention on the breadth and continuity of these Soviet efforts and on the uncertainties attached to our projections. Five substantive areas are especially noteworthy:

-- In NIE 11-3/8-77 early this year, Soviet intercontinental offensive forces were examined and compared with US forces in terms of theoretical potentials to strike soft area and hard point targets, both before and after hypothetical counterforce strikes. Without preempting the policy prerogative of full force interaction analysis, the presentation graphically displayed foreseeable trends in comparative quantity and quality of forces, and illustrated the large and growing asymmetries in their composition.

-- In a DCI presentation to the President, the implications of Soviet military R&D policies and management practices were described. This was the result of several years' research into the 20-year history of major Soviet design bureaus and their work.

-- In a memorandum for the President in September, warning was given of probable near-term increases in Soviet ICBM countersilo capabilities, owing largely to prospective accuracy improvements greater than had been anticipated. This

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memorandum disaggregated the elements of evidence, analysis, and logical assumption which contributed to the revised estimate, to help the recipient judge its validity for himself. It spelled out the uncertainties and forecast whether and when they were likely to be resolved.

-- In analytic research programs this year, greater stress has been placed on Soviet perspectives on the strategic balance (drawing in part on in-depth study of Soviet military literature and exercises); Soviet capabilities for warning, command, control, and communications; and ways to measure the implications for US forces of Soviet programs and capabilities in air defense and antisubmarine warfare. Most of this work is still in its formative stages.

-- In NIE 11-6-78 this fall, the Intelligence Community published for the first time a comprehensive estimate on trends in Soviet intermediate range strategic offensive forces and their implications, including a detailed analysis of the problem of comparing such forces with those of the West and China.

New Directions in China

Since the death of Mao, China has been in transition from a decade of "Maoist revolution" toward a future likely to be marked by greater stability, accelerating modernization, and more pragmatic approaches to economic growth and national development. The most dramatic aspect

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of this transition was Premier Hua's unveiling in March of an ambitious program of modernization over the next eight years, with unprecedentedly high goals for production, investment, scientific advance, and education, and accompanied by a considerable easing of long held "self reliance" constraints against a foreign role. Crucial elements for success in this program are improvements in economic management and a restoration of productivity of the labor force. These elements were the most notable failures during the past decade or so--and are recognized as such by the present leaders.

These new developments have caused a corresponding shift in our analytical effort away from classic power politics--"pekinology"--toward analysis of the imposing ideological, generational and economic problems the post-Mao leadership faces in implementing its policies. Personal animosities and disagreement over the distribution of political power by no means have disappeared. But our major analytical efforts over the past year have focused on the highly political issues of national development, such as investment priorities, the proper relationship between economic and military modernization, the role of material incentives in achieving growth, and the reform of China's wrecked educational system.

In foreign affairs, anti-Sovietism continues as the underlying theme, but the greatly increased tempo and imagination of Chinese foreign policy, and particularly, Peking's historic decision to seek the foreign technology and trade necessary to sustain modernization, are

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presenting us with a far more complex analytical challenge. The emergence of a more active and potentially powerful China promises to alter Moscow's perception of the threat from that direction, and perhaps significantly change the strategic triangular relationship among Peking, Moscow and Washington. Looking to the future, we must begin to assess the viability of Peking's new policies and the longer-term effect of this latest opening up of China on Chinese society and politics.

The Uncertainties of Energy Analysis

Three factors this year have tended to deepen public disbelief in the reality of a much-heralded looming oil stringency: (1) sluggish economic growth in the industrial countries, greatly softening the demand for oil; (2) the coming on stream of North Sea and Alaskan oil, providing a relatively ample supply; and (3) a reduction in the real price of oil to a number of countries as a result of sharp dollar depreciation in foreign exchange markets. These factors have further veiled the dangerous longer-term trends of increasing US dependence on OPEC oil and the continuing high risk of a serious shortfall by the mid-eighties.

The main thrust of our energy analysis in this period was to keep the policymakers' attention focused on these longer-term trends. In the process, we developed a deeper understanding of the real determinants of future oil supply and demand. On the supply side, we became increasingly aware that the key to future production was not the technical

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capability to prove up new reserves or to extract oil from difficult or recalcitrant fields, but rather the political willingness of governments to expand their oil production capacity. Governments in the most important producing countries are taking an increasingly conservative and conservationist view toward capacity growth, seeking to preserve the patrimony for future generations and fearing the economic and social consequences of too rapid expansion. Actual output in future years thus may fall far short of what would be technically feasible. On the demand side, we have become aware of the difficulty of distinguishing between repressed demand because of low economic growth, and reduced consumption because of deliberate conservation by individuals, households and enterprises. Accordingly, we have launched an intensive effort to analyze energy consumption patterns by sector and industry in order to determine shifts in historic trends in energy savings and conservation potential.

Finally, we have become more sophisticated in the treatment of uncertainty in our energy forecasting. Rather than making predictions based on a single "most likely" set of assumptions, we have tried to identify the main determinants of future supply and demand--rates of production, growth and conservation--treating each explicitly in terms of range of likely developments. This enables us to display alternative future market conditions over a wide spectrum of possibilities. The process, of course, does not eliminate uncertainty, but it greatly reduces the risk of misleading the policymaker.

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Managing the Global Economy

Policymakers in the developed countries have become increasingly concerned about their ability to "manage" global economic problems. After four years of trying to cope with the post-1973 economic environment, they find that by and large they still suffer from a lackluster economic performance, high unemployment, rapid inflation and unstable currencies. While the necessity for closer cooperation in preparing economic policies has been recognized by individual leaders and major international organizations for some time, the current troubles have made such moves imperative.

Strong efforts were made in 1978 to reduce the sharp differences in inflation rates and foreign payments positions, to lessen currency fluctuations, to minimize protectionist pressures and to allow "sick" industries (steel, textiles, for example) to adjust as painlessly as possible to new market realities. Many of these endeavors were thwarted by the need of each government to consider the domestic repercussions of any international economic move it might take. West Germany, for example, has been hesitant to increase foreign purchases by stimulating domestic activity, fearing that this will boost the pace of domestic inflation.

The frustrations of dealing with these hard issues have led to greater emphasis on direct discussions among heads of state. The prime example is the various summit meetings at which understandings are reached on each country's responsibility for pulling the global

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economy out of the doldrums. Another example is the effort by Chancellor Schmidt and President Giscard to achieve closer links among European currencies, a move which it is hoped will improve the investment climate within the region.

25X6 This kind of multilateral policymaking at high levels has required the Intelligence Community to place even greater emphasis on assessing the political and economic forces that influence the decisions of key leaders. We have examined, for example, what factors are at work in the decisions related to the European monetary system. We also assessed attitudes in Europe, [REDACTED] toward the recent Bonn Summit, taking an especially hard look at special interest groups that have the power to prevent leaders from taking a more forthcoming international view.

New Approaches in Africa

The main thrust of intelligence support regarding Africa during the past year has been to try to assure that policymakers are aware of the indigenous African scene--the limitations, ambitions, objectives, and above all anxieties of African actors which intersect and interact with the continuing extension of Soviet and Cuban presence into the region south of the Sahara.

The general purposes of the Soviets and Cubans have been reasonably clear, even where their precise role, as in Shaba II, has been in dispute outside the Intelligence Community. What policymakers, looking for

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openings to play a constructive role, have found unfamiliar is the special mix of motives and needs in black Africa. Nowhere has the gap between the public posture and the private assurance been greater; the special task of analysis has been to indicate, and continually re-evaluate, the weights to be assigned to each--re the Horn, Zaire, Rhodesia, Chad, and other less immediate crises.

The fact that each of these situations involved deployments of military forces, including regular Cuban combat units in the Horn, has compelled us to put a new emphasis on military intelligence analysis with regard to sub-Saharan Africa. In consequence, we feel somewhat better prepared for possible future developments in central and southern Africa.

The fact that political and economic factors are so immediately, visibly related in the African region has impelled us further toward an emphasis on interdisciplinary analysis, more particularly since many US policy options with regard to Africa have a strong economic element.

Our support in specific crises broke some modest new ground. The policy group formed under NSC aegis to monitor the Ogaden war was supported, at its request, by a series of bi-weekly interagency assessments produced as the fighting developed. We put particular emphasis in each edition on the extent to which our views had shifted since the previous assessment. During the Shaba II crisis, as well as during the Ogaden fighting, support also took a more traditional form--formation of NFAC

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task force/working groups and production of situation reports, plus special studies as called for by the DCI. While NFAC support activities worked well in these situations, it is important to note that these were not "crises" on a scale comparable to those which have confronted previous Administrations, and thus were not real tests of the crisis support machinery.

Shifts in Regional Emphases

Events in Indochina, in South Asia, and in Iran prompted some notable shifts in analytical emphasis.

Interest in Indochina revived sharply as the border war between Vietnam and Cambodia escalated in 1977 and as the subsequent deterioration of relations between Vietnam and China became evident in 1978. Indochina was becoming an important theater for Sino-Soviet competition, and this aroused concern about the impact of events there on the rest of Southeast Asia. Moreover, the growing ties between Vietnam and the USSR that resulted from Sino-Vietnamese tension raised the specter of Soviet access to Vietnamese ports, with consequent serious implications for US interests in the area.

To meet the increased demand from both Congress and the Executive Branch for intelligence coverage of Indochina it has been necessary to augment the resources devoted to the area. The sharp decline in US interest in Indochina after the end of the Vietnam war in 1975 had been accompanied by a shift of analysts to higher-priority projects. Nearly

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all of the 15 or so analysts working on the region were reassigned at that time. This year, with renewed demand for analysis of Indochinese developments, we have begun to reinforce our analytic strength in this area.

The nature of the Indochina intelligence problem is, of course, quite different from our previous wartime concerns. Today the problem is more broadly based and focuses on the ability of the Indochinese states to rebuild economically, to establish political control, to spread their influence elsewhere in the area, and to manage their relations with the two Communist superpowers.

Although our major preoccupation in the Near East and South Asia area during 1978 continued to be with Arab-Israeli issues, a new element was introduced in the form of much greater attention to South Asia. Except for India, this had been an area of few major developments and relatively less analytical interest during the mid-1970s. The serious domestic political problems which had surfaced in Pakistan in 1977 required continued attention, including an NIE, and heightened interest in Pakistani efforts to develop a nuclear capability led to a number of studies, including an interagency memorandum.

Afghanistan, previously given very low priority, overnight became a center of attention with the Marxist seizure of power in April. In addition to a great deal of reporting to explain a fast developing situation, an interagency memorandum and a number of studies on specific

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aspects of the problem, particularly Afghan-Soviet relations, were produced. Afghanistan seems certain to remain a subject of much greater interest than in the past.

Growing instability in Iran--the first serious threat to the Shah in 25 years--also required considerable additional analytic effort with several memoranda and a large number of shorter studies produced. The stability of the Iranian government will continue to be a key issue in the area and may well require even more attention in the coming year.

Proliferating Arms Control Talks

The scope of arms limitation negotiations continues to expand, and with it the need for a wider range of support by the Intelligence Community. Intelligence plays an important role now in more than a half dozen such negotiations, four of which have been launched since mid-1977. This support includes data and analysis that assist in the development of negotiating objectives and positions, direct support to negotiating teams, and--for those agreements already reached--monitoring capabilities.

Because of the greater diversity of subjects under discussion, a broader range of analytical specialties is involved. The importance of making the effort a cohesive one has become increasingly clear. We have taken several steps to ensure that the components supporting the various talks have a broad understanding of developments across the spectrum of arms control negotiations.

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The SALT process continues to require a substantial commitment of intelligence resources, both in support of ongoing negotiations and to monitor agreements currently in effect. In addition to the NFAC staff

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MBFR talks continue to be supported [REDACTED]

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[REDACTED] During September and October intelligence analysts helped implement a decision by the SCC to challenge the East to resolve the East-West disparity in Pact personnel estimates. This move required that updated NATO manpower estimates of Pact forces--estimates that would be close enough to the US national estimates that the US delegation in Vienna could use and defend them. Specific guidelines were prepared that enabled the US delegation to the MCM-76/78 Conference in October to work out satisfactory NATO estimates.

Antisatellite (ASAT) negotiations began in June 1978 with a session in Helsinki. NFAC analysts, who have closely followed Soviet antisatellite developments, have supported the NSC antisatellite working group. An NFAC officer served as intelligence adviser to the US delegation during the June round.

In the Comprehensive Test Ban talks, the US, UK, and USSR are working toward a treaty banning all nuclear tests. NFAC has provided an adviser to the US delegation in Geneva and participated in the development of issue papers here in Washington. NFAC chairs and participates

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in the nuclear test monitoring working group, which is responsible for developing CTB monitoring capability.

Four rounds of Conventional Arms Transfer talks between the US and the USSR have been held in the past year. Intelligence agencies prepared a considerable body of basic data and analysis that was used by US negotiators in developing their position papers. An NFAC officer served on the CAT Working Group in Washington and accompanied the US delegation twice to Helsinki and again to Mexico City.

Intelligence support for the Chemical Warfare talks has been funneled through a CIA-chaired subcommittee of the Weapons and Space Systems Intelligence Committee. Among the projects undertaken by intelligence analysts have been detailed stockpile and monitoring studies.

The Indian Ocean arms limitation talks, which required a significant intelligence input in the latter half of 1977, were largely dormant after February 1978 because of a Soviet naval buildup in the area at that time. The talks are expected to resume in the near future.

Finally, the first UN Special Session on Disarmament was held in June 1978. NFAC participated actively in the work of the SSOD Backstopping Committee, [REDACTED]

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